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Potash, a vital plant nutrient, is used to nourish crops around the world.

Letter of Transmittal

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March, 1982

To His Honour,
The Honourable C. Irwin McIntosh
Lieutenant Governor of the
Province of Saskatchewan:

Sir:

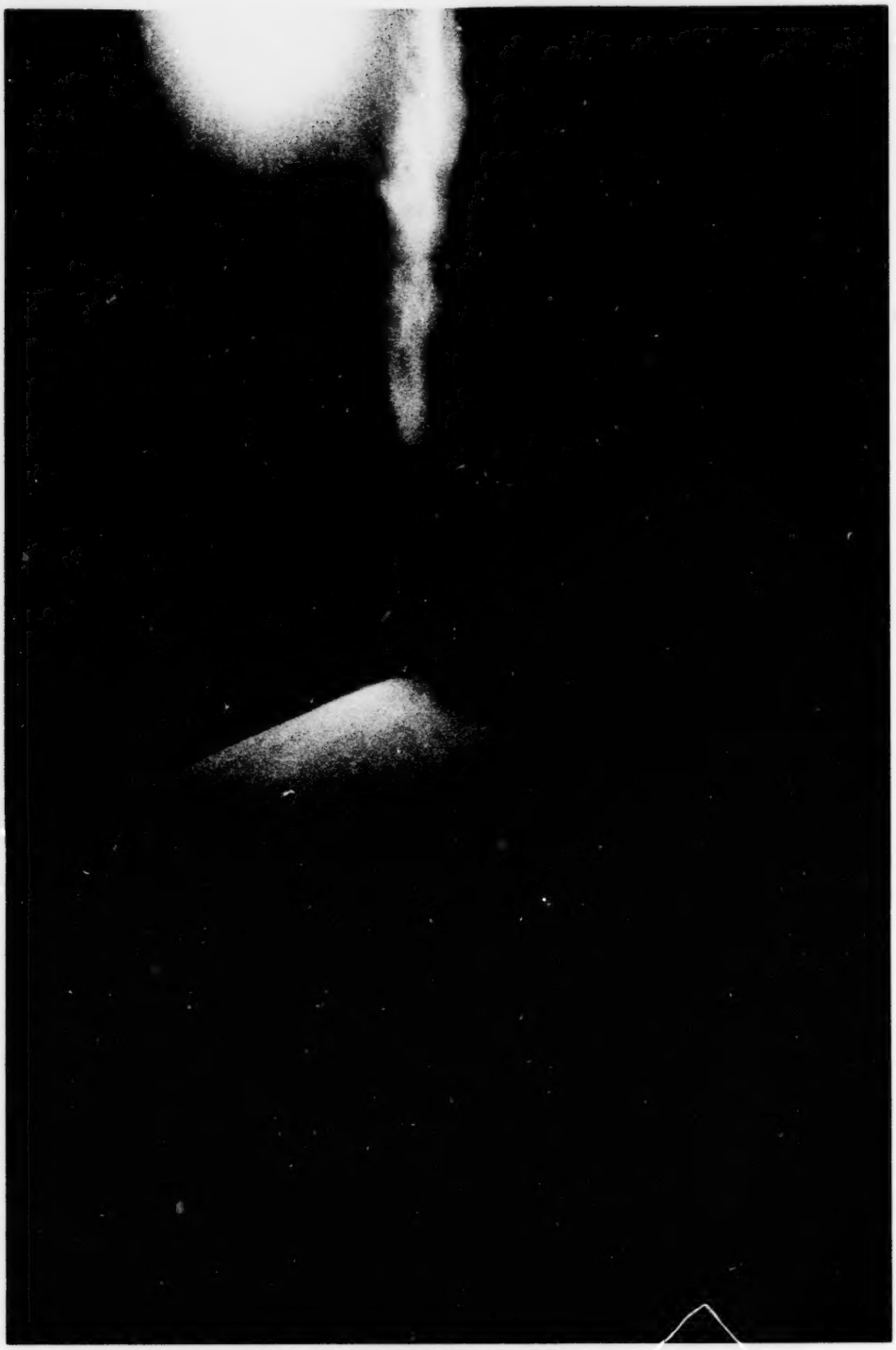
I have the honour to submit the Annual Report of the Potash Corporation of Saskatchewan for the year ended December 31, 1981, including the financial statements in the form required by the Treasury Board and duly certified in accordance with The Potash Corporation of Saskatchewan Act.

I have the honour to be, Sir,
Your obedient servant

Roy Romanow

Roy J. Romanow
Minister in charge of the
Potash Corporation of Saskatchewan

Potash rolls off a conveyor belt at a PCS Mining Division.



Interior and exterior views of the storage bins at PCS Mining, Cory Division

Highlights

Financial	Dec. 31, 1977	Dec. 31, 1978	Dec. 31, 1979	Dec. 31, 1980	Dec. 31, 1981
Net Income	$ 1.12 million	$ 24.72 million	$ 77.96 million	$167.45 million	$141.72 million
Sales	$52.29 million	$156.47 million	$270.5 million	$392.49 million	$370.77 million
Provincial taxes, royalties and resource payments	$16.28 million	$ 35.10 million	$ 58.28 million	$ 89.54 million	$ 70.77 million
Dividend	—	—	—	$ 50 million	$ 50 million
Production					
Product Tonnes (KCl) *	1.56 million	3.13 million	3.98 million	4.48 million	4.37 million
Other					
Number of employees at year end	1,164	1,643	1,707	1,944	2,267
Gross payroll and benefits	$14.09 million	$ 32.20 million	$ 38.31 million	$ 47.21 million	$ 62.62 million

* *It is common to express potash or muriate of potash as KCl (potassium chloride). In the fertilizer industry, potash is graded on the basis of its potassium oxide (K_2O) equivalent.*

A K_2O rating represents approximately 60 percent of the actual weight of the KCl tonnes; therefore, a production of one million tonnes KCl is equivalent to 600,000 tonnes K_2O.

Chairman's Report

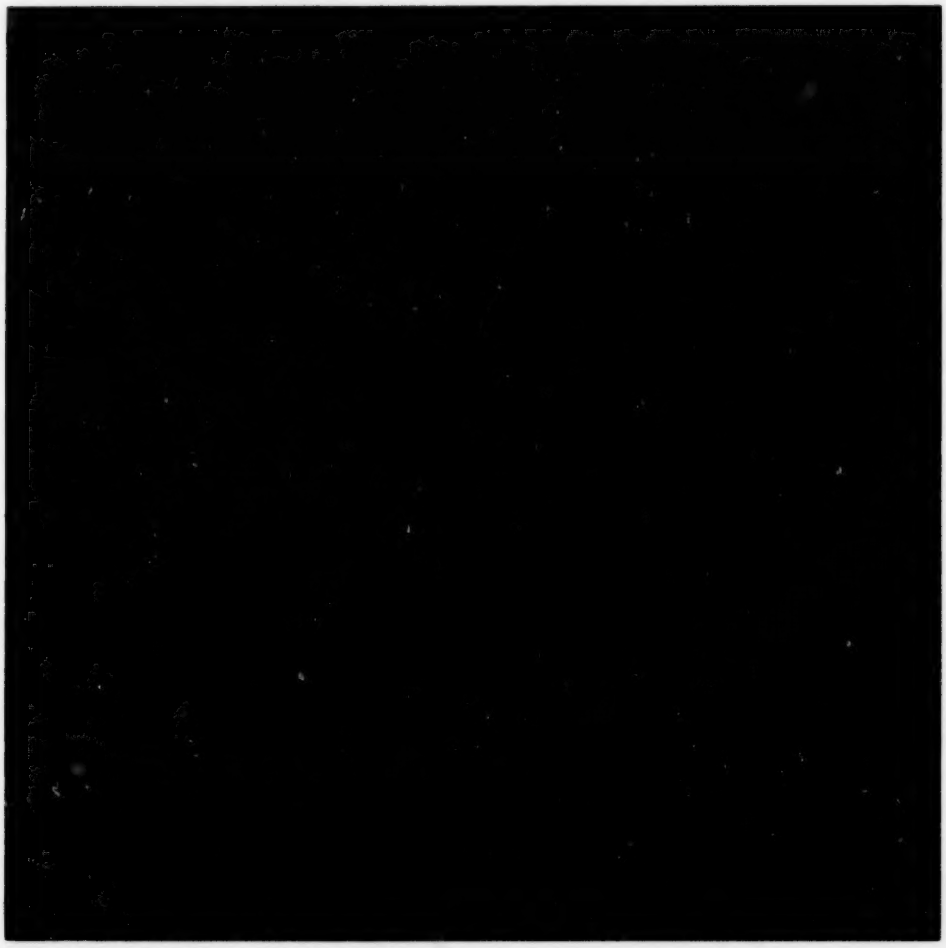
I am pleased to submit my 1981 Chairman's Report on the Potash Corporation of Saskatchewan. The Corporation and its operating subsidiaries once again achieved excellent results. This performance was achieved in spite of downward pressure on world potash markets in the last half of the year.

During 1981, the Corporation celebrated five full years as a potash producer. In its five years of operation, the Corporation can be justifiably proud of its accomplishments.

Today, the Corporation has established its Head Office in Saskatoon, where it directs what has become the largest potash producing and exporting organization in the Western World.

The Potash Corporation of Saskatchewan is at the forefront of research and development activity in mining and milling techniques, transportation and distribution, safety of the workplace, and the environment. The expansion of the Corporation's Saskatoon Head Office fulfills one of the main goals of the government in creating PCS, that of providing opportunities to Saskatchewan residents to enter the world of business without leaving their province.

The Corporation is also a strong supporter of the more efficient use of potash wherever food is grown. It is noteworthy that the Corporation's dedication to this concept is enhanced by David Dombowsky's election to the Chairmanship of the Potash and Phosphate Institute of North America.



Laser beams guide mining machines underground.

In 1981, the Corporation announced the formation of PCS International to market directly to customers outside of North America. Through innovative methods of market development and transportation, PCS International will make further contributions to the world agricultural community.

During the year, 3.88 million tonnes of product were marketed, resulting in gross sales of $370.77 million. Based on this sales level, the Corporation achieved a net profit of $141.72 million after returning $70.77 million to the Province of Saskatchewan in taxes, royalties and resource payments.

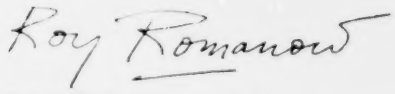
As a result of this year's profit level, I am once again pleased to announce the Corporation will pay a dividend of $50 million, over and above the taxes already paid. This is the second year in a row the Corporation has been able to pay this return.

Financially, the Potash Corporation of Saskatchewan is highly successful. In five years of operation the Corporation has achieved a total profit of $413.52 million. This level of net income is nearly equal to Saskatchewan's total equity investment in the Corporation of $418.55 million. Further, the Corporation has directly returned a total of $271.05 million in the form of taxes, royalties and resource payments to the Province, in addition to $100 million in dividends.

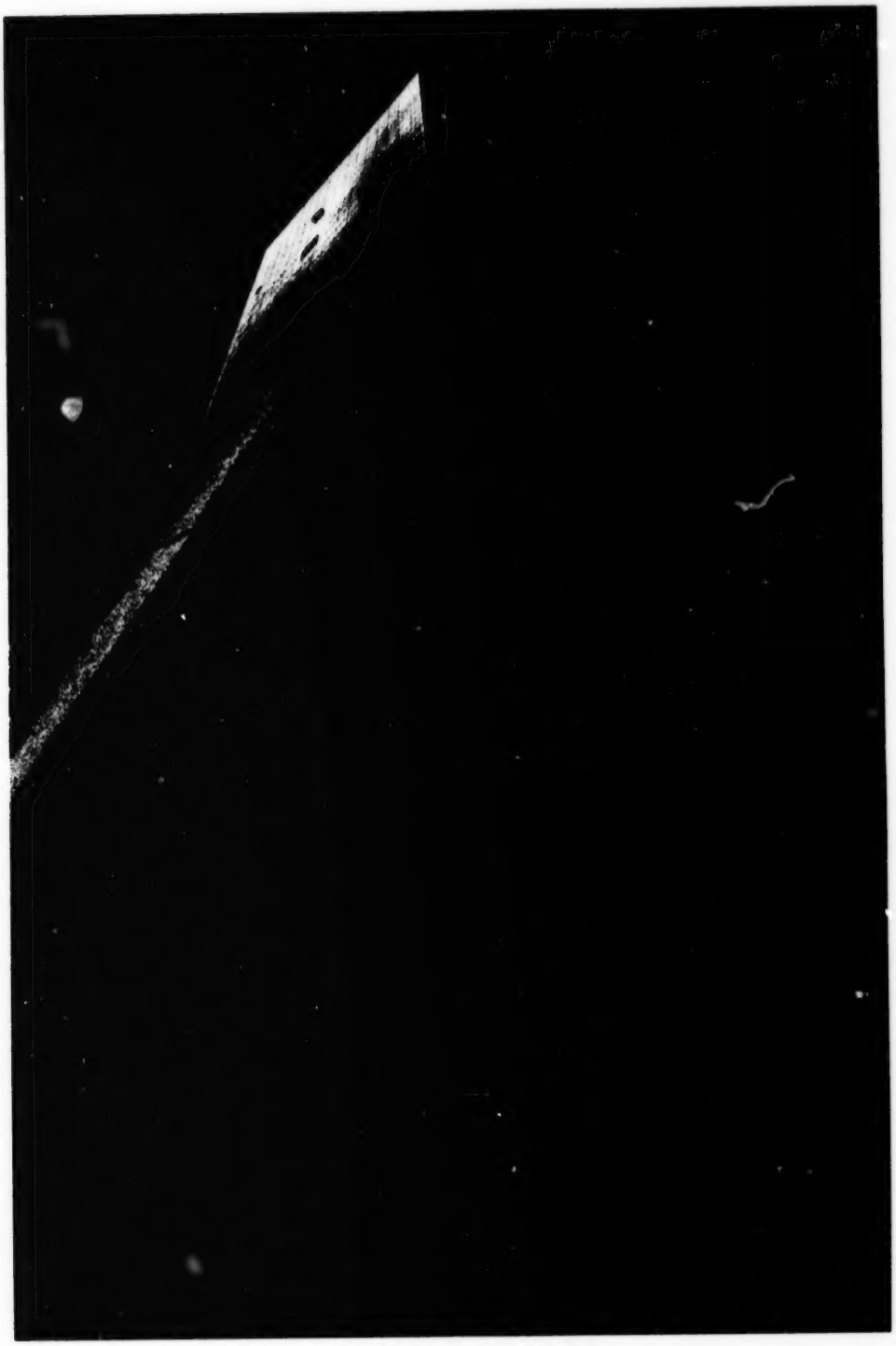
In 1979 and 1980, the Corporation experienced excellent market conditions which contributed to the strong financial performance of the Corporation. In 1981, the first half of the year was characterized by continued strong demand, but the second half was adversely affected by world economic circumstances and declining farm incomes. The Corporation is hopeful that in 1982 economic circumstances, and hence demand for potash, will improve.

The Corporation recognizes that the fortunes of the potash industry, as in agriculture, are cyclical. However, the long-term trend always has been upward. The Corporation looks forward to the future in the knowledge that it has a sound workforce, an efficient production base, and unlimited low-cost reserves. Add to this our commitment to major expansion of production and worldwide distribution systems, and you will understand my optimism even in this period of temporary weakness in the market.

In closing, I would like to extend the gratitude of the Board of Directors to the employees of the Corporation and its subsidiaries for another successful year.



Roy J. Romanow
Chairman of the Board



The impressively-designed headframe at PCS Mining, Lanigan Division.

President's View

In all respects, 1981 was a notable year for the Potash Corporation of Saskatchewan. It was the year in which the Corporation and its operating subsidiaries completed five full years as a potash producer and marketer. It was also the year in which the Corporation made the important decision to establish itself on a worldwide basis by the creation of PCS International.

Looking back, 1981 may also be regarded as the year in which the Potash Corporation of Saskatchewan fully completed its first phase of development. After purchasing PCS Mining, Cory Division, in October 1976, the Corporation went on to acquire Rocanville Division in April 1977, Lanigan Division in November 1977, Esterhazy Division in January 1978, and sixty percent of the Allan Division in April 1978. Each purchase was followed by a period of transition and consolidation which is now complete. The last step in this process occurred when PCS Mining assumed operational responsibility for Allan Potash Mines on January 1, 1981.

The acquisition of each division was followed by a program designed to exploit the particular opportunities each mine provided for increased production. The largest project completed to date occurred at Rocanville and involved expansion of both mining and milling capacity. Announced in November of 1978, the new facilities were in place by October 1981.

In 1981 the Corporation continued its commitment to move high volume tonnages through an efficient and reliable transportation and distribution system. The unit train system, in which large shipments of potash are moved consistently to Potash Centers in the United States midwest, was expanded through the addition of the Danville, Illinois Potash Center to those already existing at Springfield and Seneca, Illinois, and Waterloo, Iowa. As well, construction on a fifth Potash Center at Fort Dodge, Iowa, began during the year.

In April, recognizing the growing complexity of its transportation and distribution network, the Corporation created PCS Transport. This subsidiary has the task of ensuring efficient and reliable delivery to all customers, including those offshore with which PCS International will conclude contracts in 1982.

The purchase of the PCS Mining divisions, and the building of a marketing and sales force, required the development of a sophisticated and technically competent management staff at the Corporation's Head Office in Saskatoon. During 1981 this phase was largely completed, and a strong management team is now in place to see the Corporation through the 1980's. The Corporation and its subsidiaries employed a total of 2,267 employees at the end of 1981.

Of further significance in 1981 was the Corporation's decision to sell directly in offshore markets. PCS International was established to serve markets outside of North America and is now fully operational. PCS Sales, which has marketed directly in North America since its inception in 1976, will continue to be responsible for North American markets.

In financial terms, 1981 was another successful year for the Corporation, with gross sales of $370.77 million, and net profits of $141.72 million. Production was 4.37 million tonnes, and the Corporation sold 3.88 million tonnes.

While I am pleased with the Corporation's activities and results in 1981, I should address the current market situation. Demand for our product fell in the latter part of the year. A return to the previous potash growth pattern will only be realized when net farm incomes improve worldwide. In 1982 we are not looking to a complete recovery, but are optimistic that demand will improve. The Corporation will carry higher inventories, strengthening its ability to meet future demand and facilitating its entry into the international marketplace.

In spite of the current market, the long-range prospects for potash are favourable. The world's arable land is limited. This land must be made more productive if food production is to keep pace with population growth. Experts advise that it is only with increased application of fertilizers that the world can hope to satisfy future food requirements.

In conclusion, I would like to extend my thanks to the Board of Directors for its guidance and support during 1981. I must also add my deep appreciation to all employees of the Corporation and its subsidiaries for contributing to another successful year. We are ready to meet the challenges of the future.

David S. Dombowsky
President & Chief Executive Officer

The Corporation

The Potash Corporation of Saskatchewan was established by Order-in-Council on February 4, 1975 and continues to operate under The Potash Corporation of Saskatchewan Act, 1976.

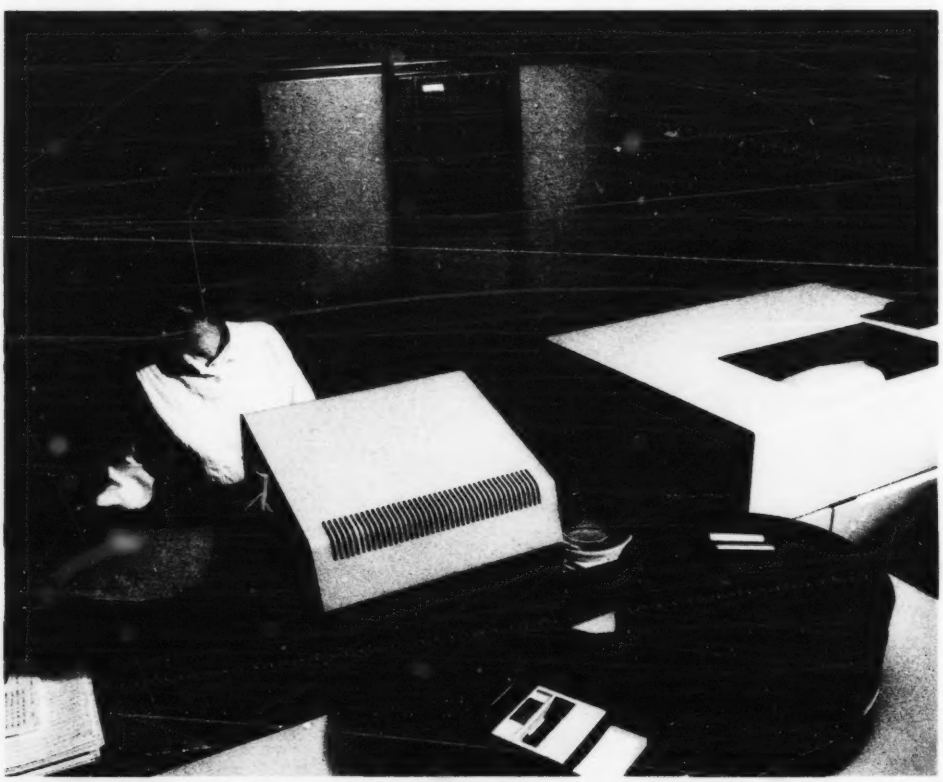
The Corporation operates four wholly-owned subsidiaries: PCS Mining, PCS Transport, PCS Sales and PCS International. PCS Mining production comes from five geographically distinct operations in Saskatchewan; PCS Transport is responsible for efficient movement of product to market; PCS Sales sells in the North American marketplace; while PCS International will market product offshore, effective July 1, 1982. The Head Office of the Corporation has overall responsibility for policy, planning, objectives and results.

In 1981, the Potash Corporation of Saskatchewan celebrated its fifth anniversary as a producer of potash, producing a total of 4.37 million tonnes during 1981 through its production subsidiary, PCS Mining. About 40 percent of the world's known reserves of potash lie under Saskatchewan soil, a quantity sufficient to supply the world for almost 2,000 years at the present rate of consumption.

Organization

During 1981, the Corporation reorganized in order to efficiently undertake its expansion of production capacity and to meet the challenges of marketing and distributing potash around the world. Douglas A. Karvonen was appointed Senior Vice-President, Corporate Development, with overall responsibility for finance, purchasing and corporate planning; the parent company engineering group was transferred to PCS Mining; and two new wholly-owned subsidiaries were created.

The newest of these, Potash Corporation of Saskatchewan International Limited, established in September 1981, will be responsible for offshore sales of potash after June 30, 1982. Canpotex Limited, a producer-owned marketing company which sells potash offshore on behalf of a number of Saskatchewan producers, will continue to market the Corporation's tonnage until that date.



PCS and its subsidiaries employed more than 2,000 employees in 1981.

Potash Corporation of Saskatchewan Transport Limited was established in April 1981. This subsidiary plays an important role in coordinating the efficient distribution of product to markets around the world.

During 1981, PCS Mining assumed responsibility for all engineering and technical areas. PCS Mining is located in the SEDCO Centre, Innovation Place, Saskatoon, while PCS Head Office, as well as the Head Offices of PCS Transport, PCS Sales and PCS International, is located in Saskatoon Square, 410 - 22nd Street East, Saskatoon.

As of December 31, 1981, the Corporation and its subsidiaries employed a total of 2,267 employees.

Corporate Affairs and Human Resources

A Corporate Affairs department was formed in June, 1981, which combined the Corporate functions of Human Resources and Administration.

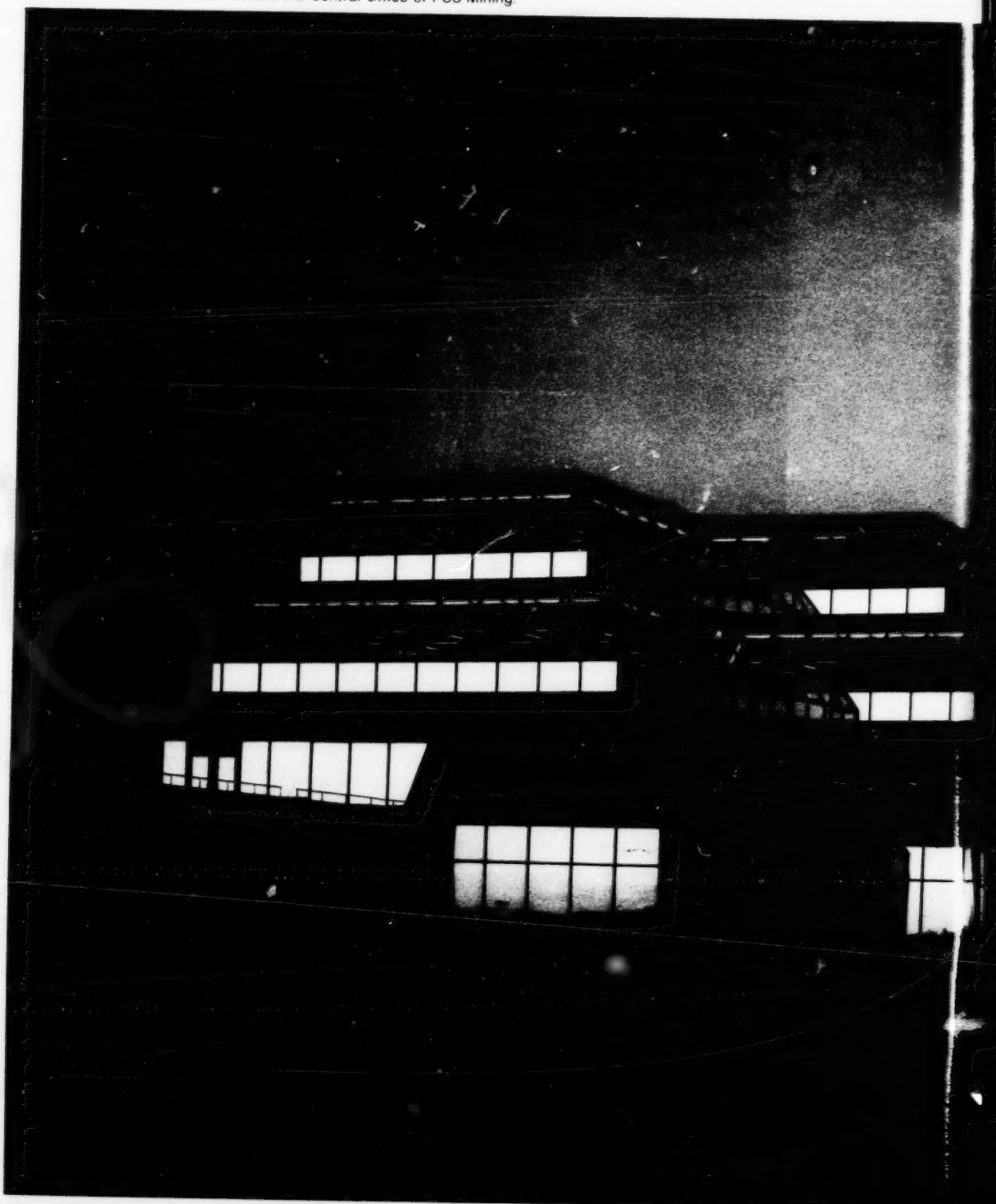
Administered in Head Office, Human Resources has taken responsibility for the establishment and implementation of policy in the management of human resources, organizational development, manpower planning, executive development and Affirmative Action.

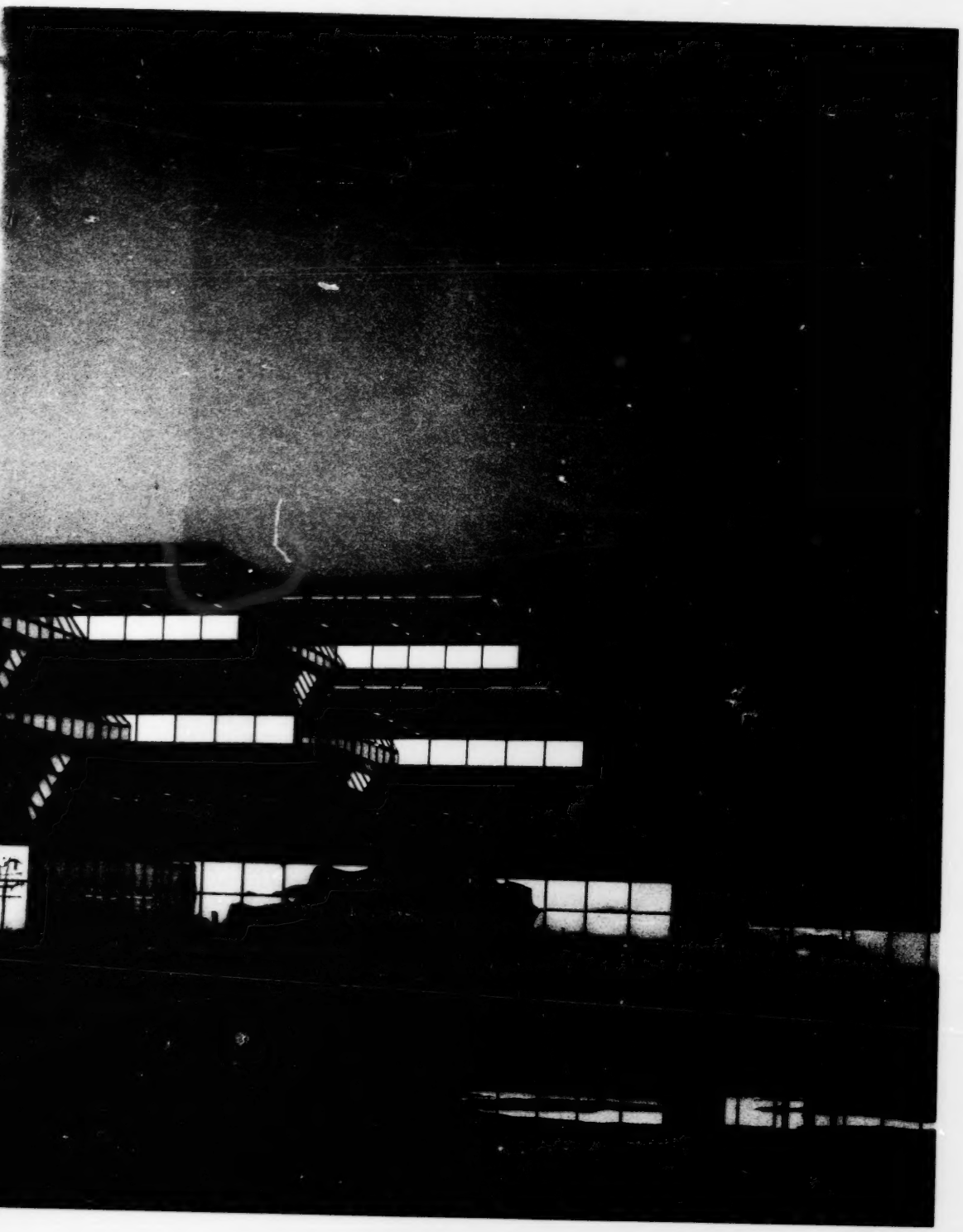
Research and Development

PCS has placed a high priority on research and development activities. In order to remain at the forefront of technology in the potash industry, between 1.0 and 1.5 percent of annual gross sales are directed to research and development within the Corporation.

The Corporation's research and development program is geared to the needs of all divisions within PCS and its subsidiaries for research output, advanced technology and new developments. The Corporate Development division of PCS coordinates the overall planning and funding of research and development carried on by the Corporation and its subsidiaries.

SEDCO Centre in Saskatoon houses the Central Office of PCS Mining.





PCS Mining

During 1981, the five divisions of PCS Mining produced a total of 4.37 million tonnes of muriate of potash.

In 1981, a reorganization of Central Office resulted in the appointment of Steve W. Harapiak as President and the incorporation of the Engineering and Technical Divisions into PCS Mining. During 1981, PCS Mining employed 2,057 people, including 189 Central Office staff.

Employee Relations

1981 was a year of consolidation. The Employee Recovery Program, which provides counselling to assist employees with problems which affect their performance at work, was implemented at the Central Office and the five divisions. During 1981, the newly formed Work Environment Board initiated a lung function and blood pressure survey. The Board, comprised of union, management and government representatives, focuses on matters affecting the work environment.

PCS Mining operates a community grants program to assist communities in which employees live. Ten post-secondary scholarships are also awarded annually to children of employees of PCS and its subsidiaries.

Environmental Affairs

In response to public attitudes and legislation concerning environmental issues, PCS established an Environmental Affairs department in 1980. In 1981, Environmental Affairs became part of PCS Mining.

The department's mandate is to advise the Corporation and its subsidiaries on environmental issues, carry out environmental research, and provide specialized environmental services to the operating divisions.

Repairs are carried out on-the-spot at PCS Mining Divisions.

Work continued on schedule on the Phase II expansion at Lanigan Division in 1981.

In 1981, the department acted as a liaison between regulatory agencies and the Corporation on a number of issues. Specialized services in the fields of air emissions and geo-technical engineering were provided. Another major activity was the development of the Bredenbury Environmental Impact statement, which was submitted to Saskatchewan Environment in the fall.

Expansions

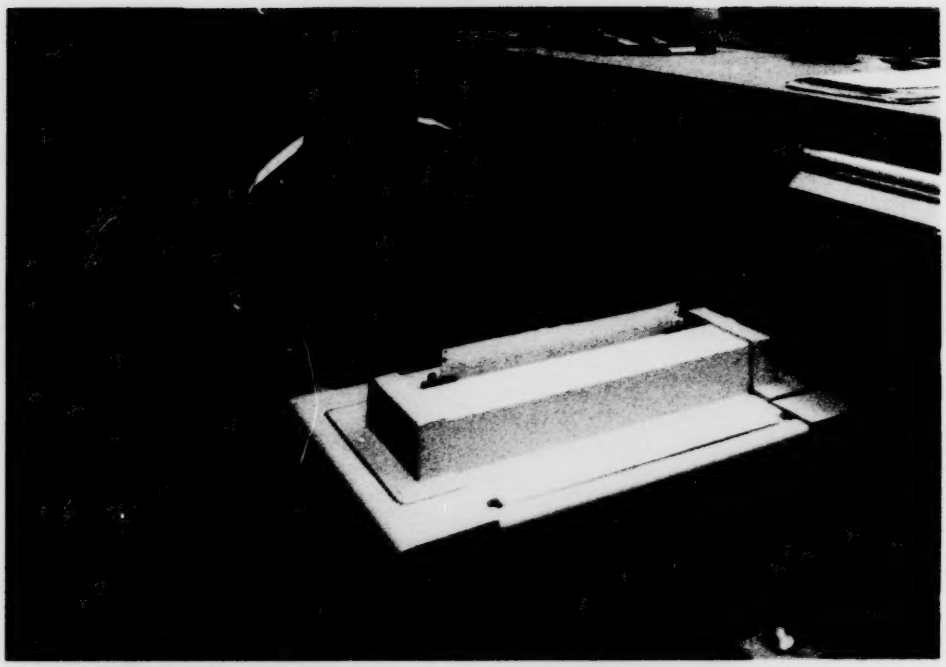
PCS has initiated systematic expansions at each property it has acquired.

Over the past five years, Phase I expansions to increase efficiency and production have been completed at Cory, Rocanville, Allan and Lanigan Divisions.

During 1981, a Phase II expansion was completed at Rocanville, increasing productive capacity to 1.80 million tonnes KCl. The Lanigan Division Phase II expansion continued on target with the completion date anticipated in late 1983.

Planning for the new mine and mill near Bredenbury is continuing. Drilling of the shaft pilot holes was completed during 1981 and results indicated the selected location for the shafts is favourable. Before the project proceeds PCS will require approval of its Environment Impact Assessment, which is under review by Saskatchewan Environment.

During 1981, conceptual and design work continued on the plan to store waste materials in a dry process at Rocanville Division. The project will reduce the area required for waste and brine storage and is more desirable from an environmental viewpoint.



Computers play a valuable role in research work.

Research and Development

PCS Mining research and development activities in 1981 focused on two major areas: processing and mining.

One of the highlights of process research in 1981 was the completion of the potassium sulphate pilot circuit at the Research Facility in Saskatoon Research Park. Using this circuit, researchers will examine the feasibility of producing potassium sulphate fertilizer on a large scale. Other highlights were the initiation of the electrostatic and brine evaporation circuits at the Research Facility. PCS Mining will use these circuits to investigate alternative methods of salt separation, KCl recovery, and brine reduction. To increase the efficiency of the flotation process, PCS Mining is carrying out basic research on chemical reagents. Research also continued in product quality control and advanced computer control of the refining process.

In mining research, investigation continued into alternative mining methods such as total extraction. New methods for automating machinery were examined both in the field and in laboratories. The study to ascertain connections, if any, between mining and seismic events, conducted through the geological sciences department at the University of Saskatchewan, continued in 1981. The use of natural underground heat for bio-mass production was also examined.

Allan Division

In January 1981, PCS Mining became the operator of Allan Potash Mines. PCS Mining owns 60 percent of the assets at Allan, while Kidd Creek Mines (formerly Texasgulf Potash) holds the remaining 40 percent.

Allan Division produced a record .73 million tonnes KCl in 1981. This was .13 million tonnes higher than the previous year when .60 million tonnes KCl was produced.

The Allan Division Mine Rescue Team won the 1981 Provincial Mine Rescue Championship held in Saskatoon, June 5 to 6. The team went on to compete in the national finals held at Banff, Alberta.

Allan Division employed 529 people at the end of 1981.

Cory Division

In 1981 the 434 employees at PCS Mining, Cory Division, produced .91 million tonnes KCl, compared to .98 million tonnes in 1980.

Efficiency and productivity improvements continued throughout the year at Cory. On surface, a crusher was added to the mill circuit, resulting in an improved throughput from the crushing plant.

Esterhazy Division

Under a long-term processing agreement, International Minerals & Chemical Corporation (Canada) Limited produced .91 million tonnes of product from PCS Mining ore reserves during 1981. In 1980 the amount was .97 million tonnes.

PCS Mining employs a staff of three at Esterhazy to handle the order processing, shipment, and maintenance of product inventory.

Lanigan Division

Lanigan Division continued in growth and development in 1981. The 459 employees at the Division produced .83 million tonnes KCl, compared to .82 million tonnes in 1980.

Work on the Phase II expansion, announced in 1980, continued on schedule. Part of the expansion is the development of new mine entries and a new ore storage area. Two of the ten Marietta 780AW4 borers ordered for the expansion are in production. The Marietta 780AW4 also will form the base of a new prototype mining machine. The new machine will mine at variable heights, combining the efficiency and flexibility of the four-rotor machine and two boom-miner turrets.

Location of PCS Mining Divisions.

Above ground, the new 90,700 tonne product storage building is near completion and construction on the new refinery is progressing on schedule. Work has begun on the new surface maintenance shop, pumphouse, powerhouse, and thickener building.

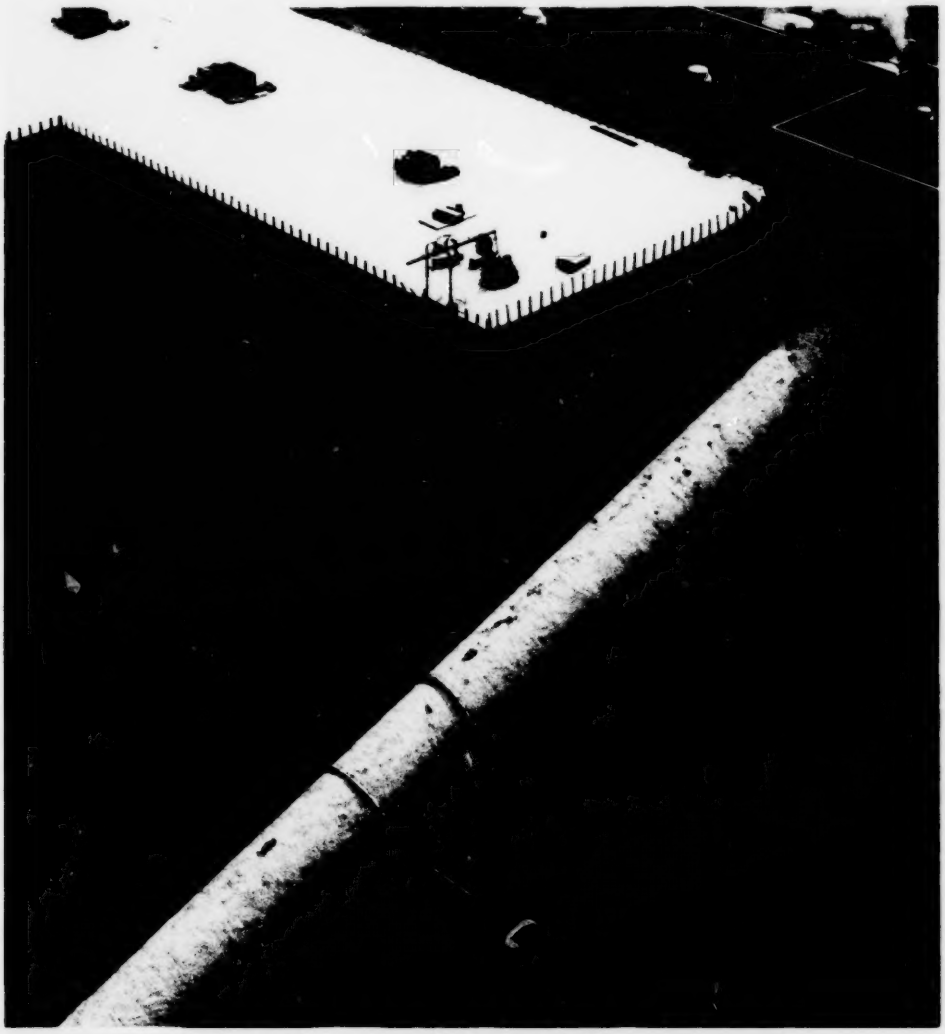
On May 22, 1981, the new changehouse and office complex were officially opened.

Rocanville Division

The highlight of 1981 for Rocanville Division was the official opening of the Phase II expansion project on October 28. Approximately 250 guests attended the opening, and toured the mine, refinery, and the new office building. The opening coincided with the Corporation's fifth anniversary celebration. The expansion increased the division's capacity to 1.80 million tonnes annually.

A new four-rotor mining machine was assembled and will be operational in early 1982.

Rocanville Division employed 443 people and produced .99 million tonnes KCl in 1981, compared to 1.1 million tonnes in 1980.

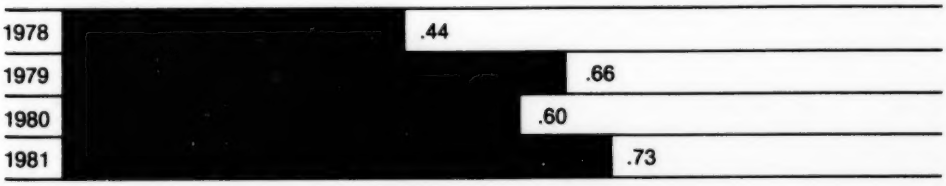


The PCS Mining, Rocanville Division expansion was completed in 1981.

A drill rig arrives on site to drill pilot holes near Bredenbury.

Production

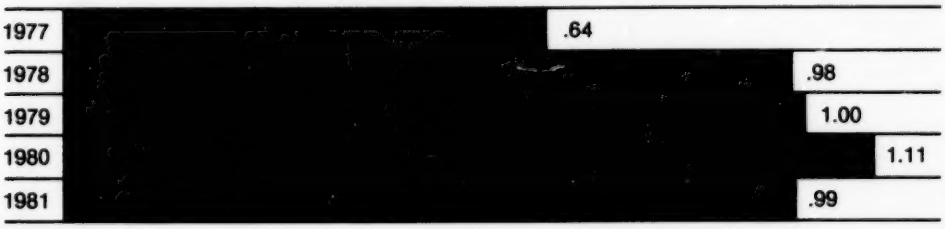
Allan Division (in million tonnes KCl)



Cory Division (in million tonnes KCl)

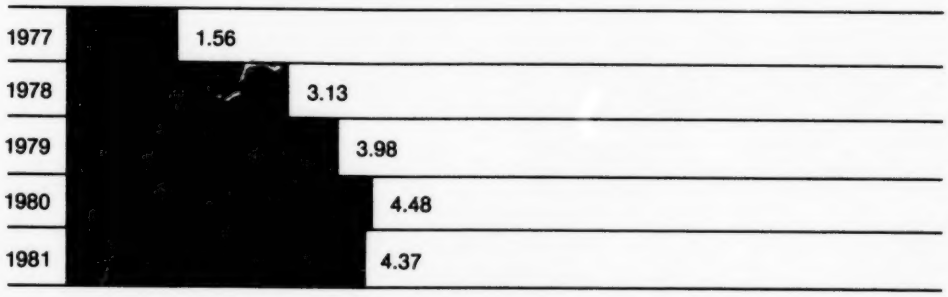
Esterhazy Division (in million tonnes KCl)

Rocanville Division (in million tonnes KCl)

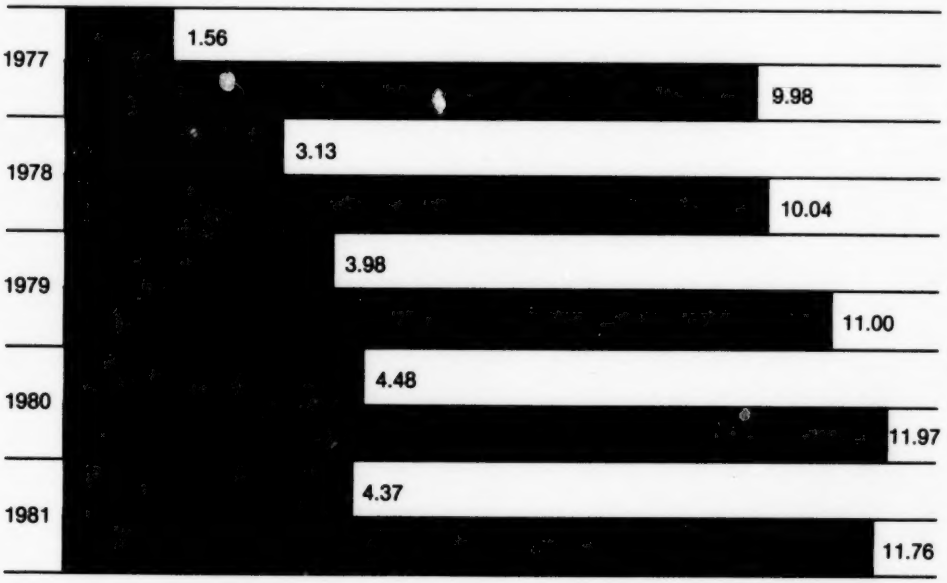


Lanigan Division (in million tonnes KCl)

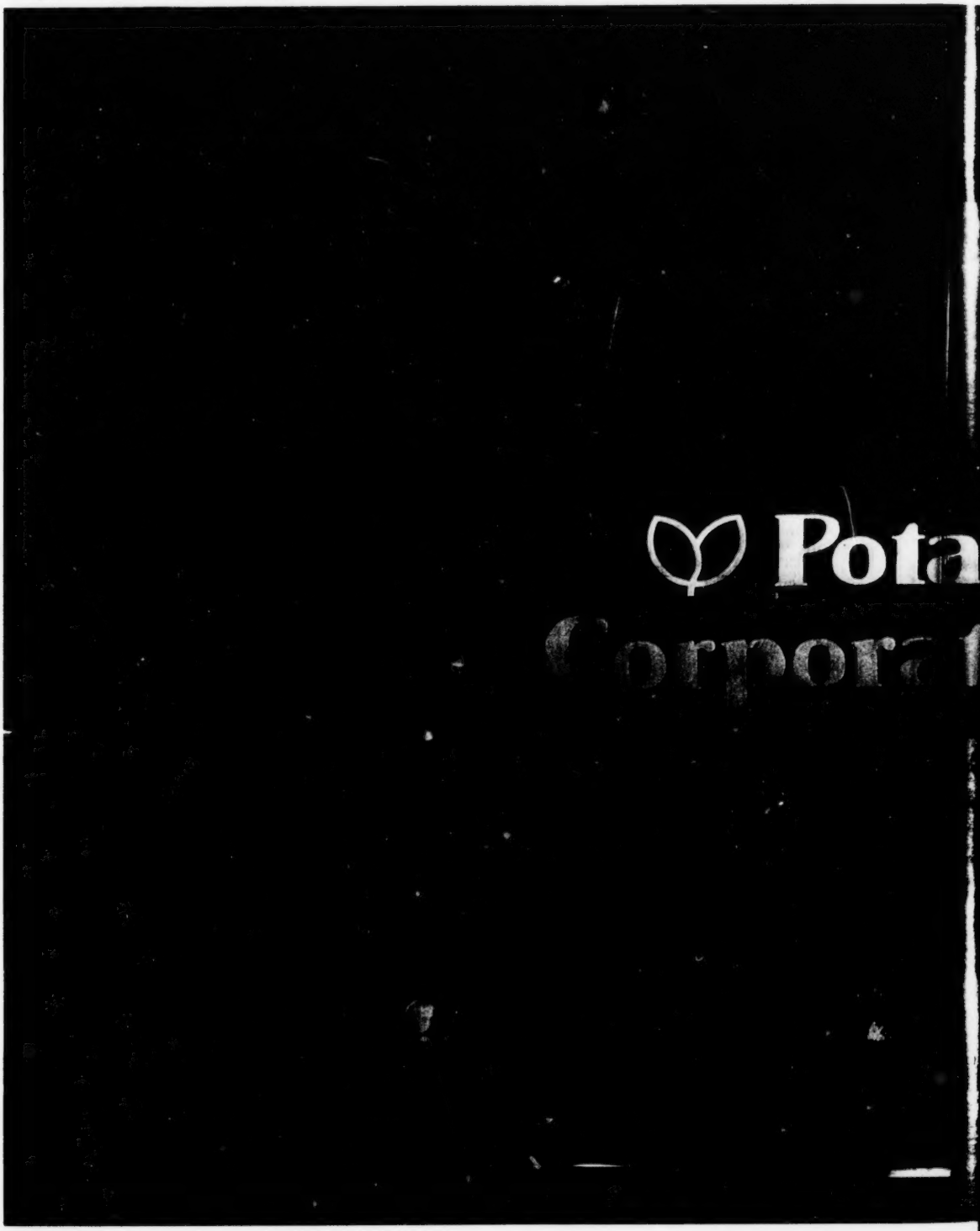
PCS Mining (in million tonnes KCl)



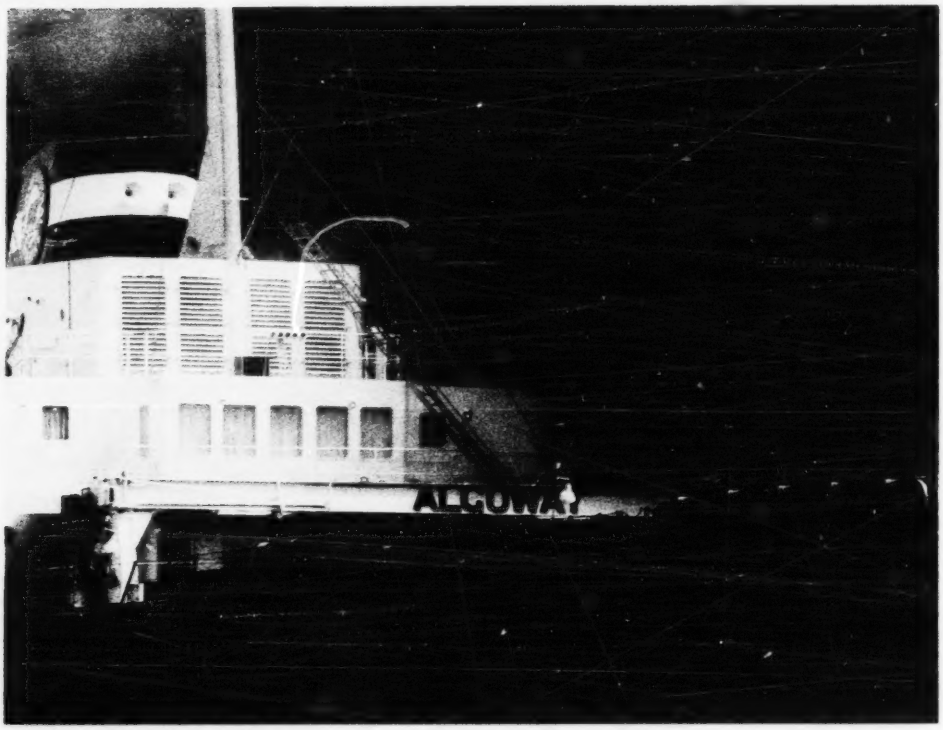
Total Production (in million tonnes KCl) PCS Mining Canadian Producers



A hopper car of the Corporation's fleet.



PCS Transport



A ship takes on a load of potash.

A high priority of the Potash Corporation of Saskatchewan continues to be an efficient distribution system. In April, all transportation and distribution functions were consolidated in a new subsidiary, Potash Corporation of Saskatchewan Transport Limited. Rolf H. Holzkaemper was appointed President of PCS Transport.

The objective of PCS Transport is to complement PCS Sales and PCS International by delivering potash to customers in an efficient manner and to provide a high level of customer service.

In recent years, PCS Sales has made significant contributions to an improved potash distribution system within North America. In 1980, a potash unit train and distribution center concept was inaugurated, with continuous train load service from Saskatchewan into the American midwest. In 1981, this system was consolidated and expanded.

Potash unit train operations in 1981 were successful. Trains completed trips to the midwestern states in eight-day cycles. Unit trains in combination with major distribution centers provide a highly efficient means of moving potash from Saskatchewan to our customers. As a result, the Corporation is considering further expansion of the system.

Four potash distribution centers are now located in the United States. The fourth Potash Center at Danville, Illinois opened in February 1981. A fifth center at Fort Dodge, Iowa is under construction and will be ready to serve customers in the spring of 1982.

Potash movement through the Port of Thunder Bay and the Great Lakes increased significantly in 1981. For the Saskatchewan industry as a whole, volumes increased from 833,717 tonnes in 1980 to 1,445,651 tonnes in 1981. The rail/laker system is a lower-cost delivery system in specific market areas and PCS Transport will continue to utilize this mode in the future.

The Corporation experienced no difficulty in obtaining a sufficient number of rail cars in 1981. This enabled PCS Transport to consolidate its present fleet of over 1,400 rail cars

and to implement new routing and monitoring procedures. The new procedures have resulted in improved utilization of the Corporation's rolling stock.

A fleet maintenance program has been implemented which will result in higher quality equipment and enhanced utilization. This will result in a greater capability to move potash to customers.

Although rail transportation continues to be the most effective mode to move potash from land-locked mines in Saskatchewan over long distances, trucking has proven effective for the developing markets adjacent to the mines, as well as over short hauls, such as outbound shipment from Potash Centers in the United States. Trucking is becoming even more attractive in the U.S. as proposals for rail branch line abandonment are implemented.

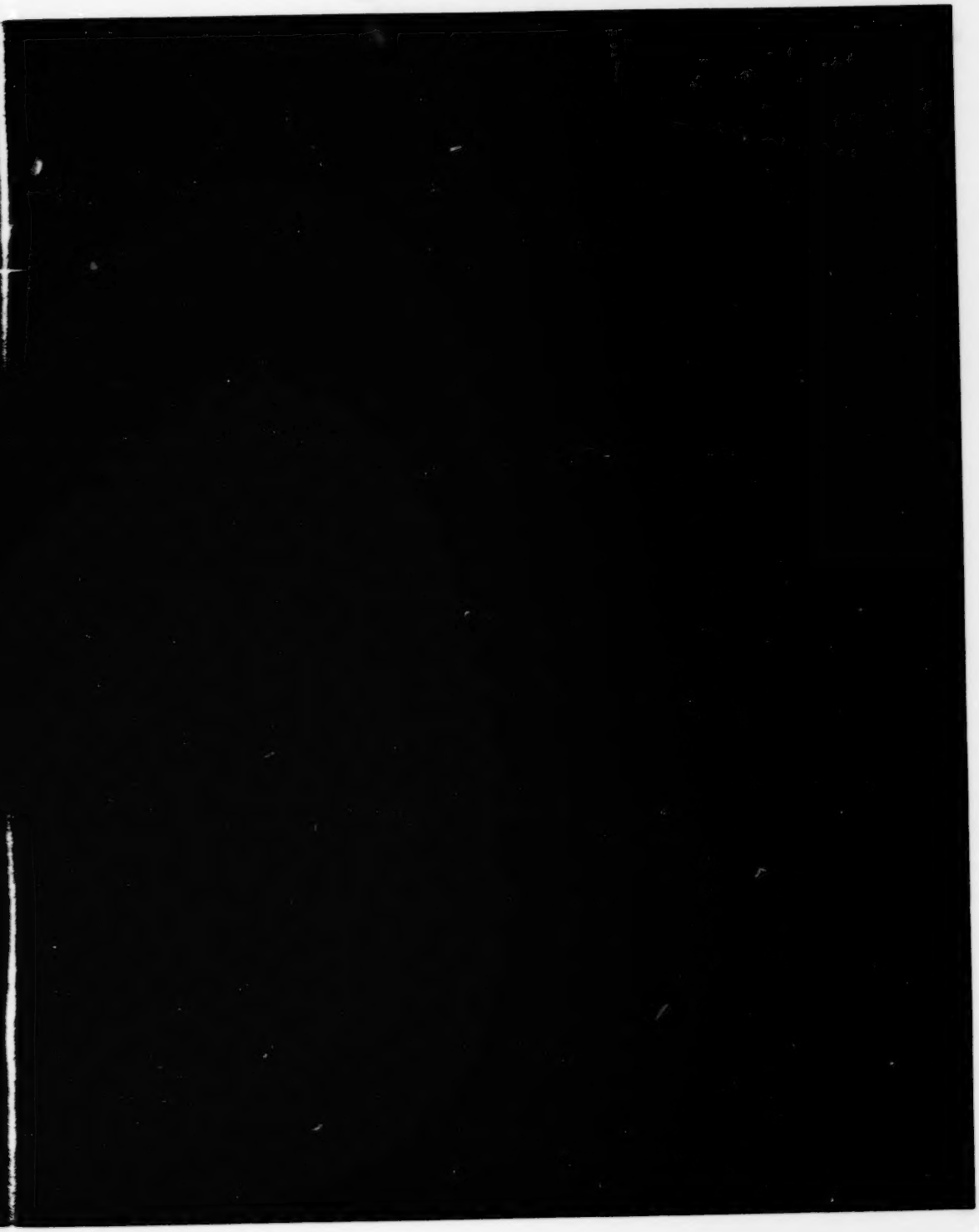
PCS Transport has been active in developing distribution systems for offshore delivery. An evaluation of west coast terminal capacities and requirements has begun. PCS Sales now owns approximately 60 percent of Canpotex Bulk Terminals, which in turn owns the potash facilities at Neptune Bulk Terminals. In addition, PCS Sales owns a warehouse at Vancouver Wharves.

PCS Transport intends to assist customers worldwide in distribution logistics. Activities are designed to minimize the transportation component of the delivered price and to ensure timely delivery.

Location of Potash Centers in the U.S. midwest.

PCS Sales staff inspect an experimental crop.

PCS Sales



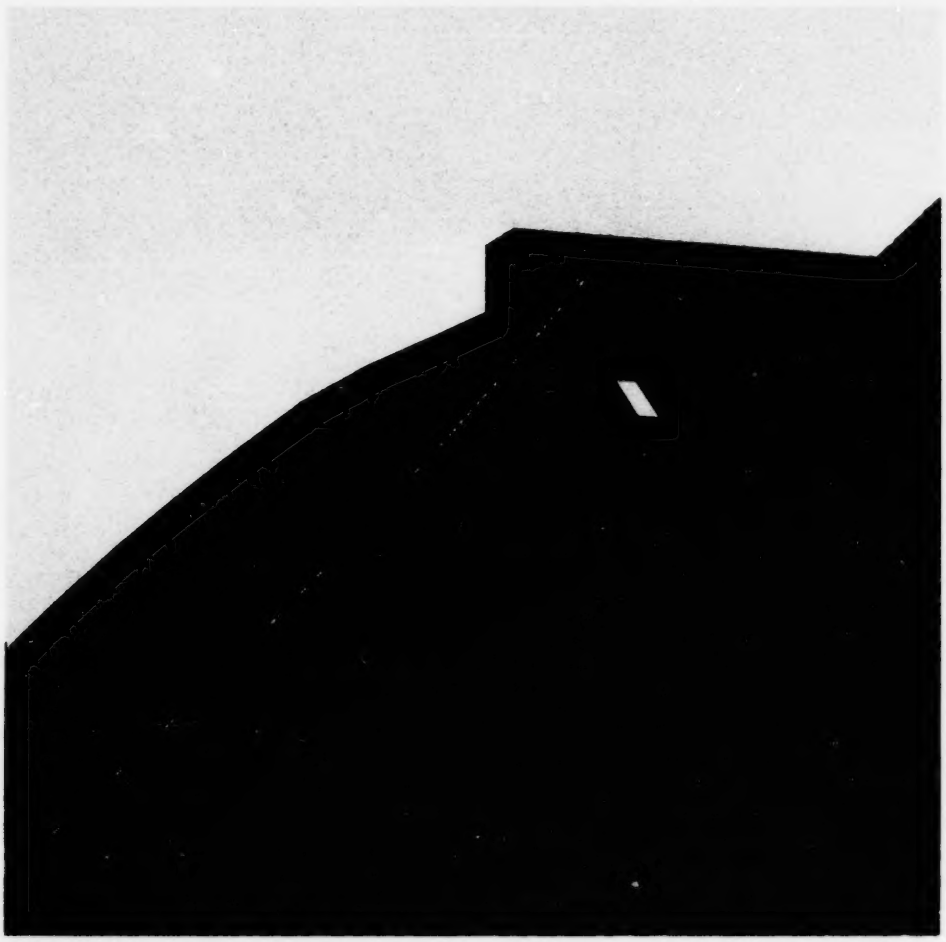
PCS Sales

PCS Sales is the North American marketing subsidiary of the Potash Corporation of Saskatchewan. During 1981, changes in the organizational structure of PCS and its subsidiaries resulted in the appointment of Douglas E. Logsdail as President of PCS Sales. Sales are administered from the subsidiary's head office in Saskatoon. Two National Account Sales Managers, located in Saskatoon, are responsible for the sales contracts to large fertilizer manufacturing companies in the United States. District Managers for field accounts in Canada report to Saskatoon, while 13 American District Managers report to the field sales office in Atlanta, Georgia.

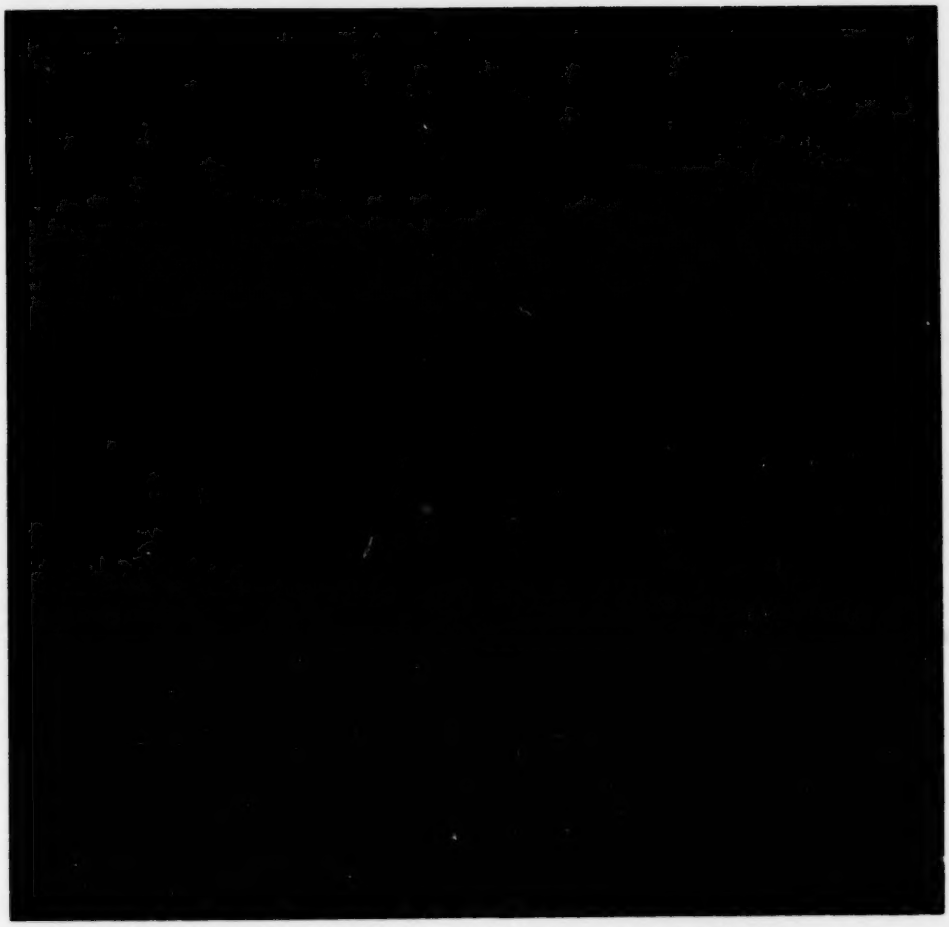
In 1981, PCS Sales continued as a member of Canpotex Limited, a producer-owned marketing company responsible for offshore sales of potash from five Saskatchewan producers. Effective June 30, 1982, PCS Sales' membership in Canpotex will terminate and the Corporation's new offshore marketing subsidiary — PCS International — will begin selling directly to overseas customers. PCS Sales will retain sole responsibility for marketing product in North America.

During 1981, PCS Sales marketed a total of 3.88 million tonnes of product.

In May, PCS Sales adopted the generic name "Sas-K" for the purpose of marketing its products. Products offered are: Sas-K Granular; Sas-K Coarse; Sas-K Standard; Sas-K Suspension; Sas-K Soluble; Sas-K Industrial; and Sas-K Refined.



One of four potash centers serving PCS Sales' customers in 1981.



The beneficial effects of potash are dramatically illustrated by crops of peanuts and corn.

North America

In 1981 the company sold 2.11 million tonnes in North America compared to 2.45 million tonnes the year before. The North American agricultural sector suffered during 1981. High interest rates and continuing inflation increased costs of production, forcing many farmers into a tighter cost/price squeeze. Grain and livestock prices fell, due in part to the strong U.S. dollar in international money markets. Excellent harvests in North America and other major grain-producing regions served to further depress commodity prices.

A trend towards fall application of fertilizer during the last four years has relieved many of the spring transportation problems. However, 1981 saw very low fall fertilizer application. This was due to a combination of severe weather problems delaying the harvest, low commodity prices and high interest rates. PCS Sales expects spring application in 1982 to return to more traditional levels.

Offshore

The offshore market in 1981 was characterized by strong sales in the first half of the year, followed by a decline in shipments in the second half. Economic problems in many importing countries caused customers to draw upon existing inventory rather than maintaining import levels. Brazil, a major importer of potash, experienced further problems with a change in the government fertilizer subsidy policy as well as severe weather conditions.

Through its membership in Canpotex Limited, PCS Sales supplied 1.76 million tonnes of potash to offshore markets in 1981. Canpotex sales in 1981 were 2.80 million tonnes, compared to 3.28 million tonnes in 1980.

Market Development

Within PCS Sales, service departments have provided strong support to the sales effort.

The Market Research department plays a valuable role in future market planning. One major development in 1981 was the computerization of sales data for North America. Such data provides shipment breakdowns by state/province and grade of product level on a monthly basis. This allows a more detailed analysis of the market position and, as this data base is expanded, more sophisticated market analyses will be initiated.

The Market Development department program is designed to maintain existing markets and assist in the development of new potash markets by planning, developing and implementing comprehensive promotional strategies. Internal programs have been implemented to increase communication and allow for an interchange of information between head office and field personnel.

The Technical Services department acts as liaison between the mines and PCS Sales. It is responsible for product quality surveillance, claims adjustments and ensuring adherence to legislation pertaining to product quality and development. Technical Services is also responsible for the presentation of technical reports at external seminars and conferences.

Agronomy

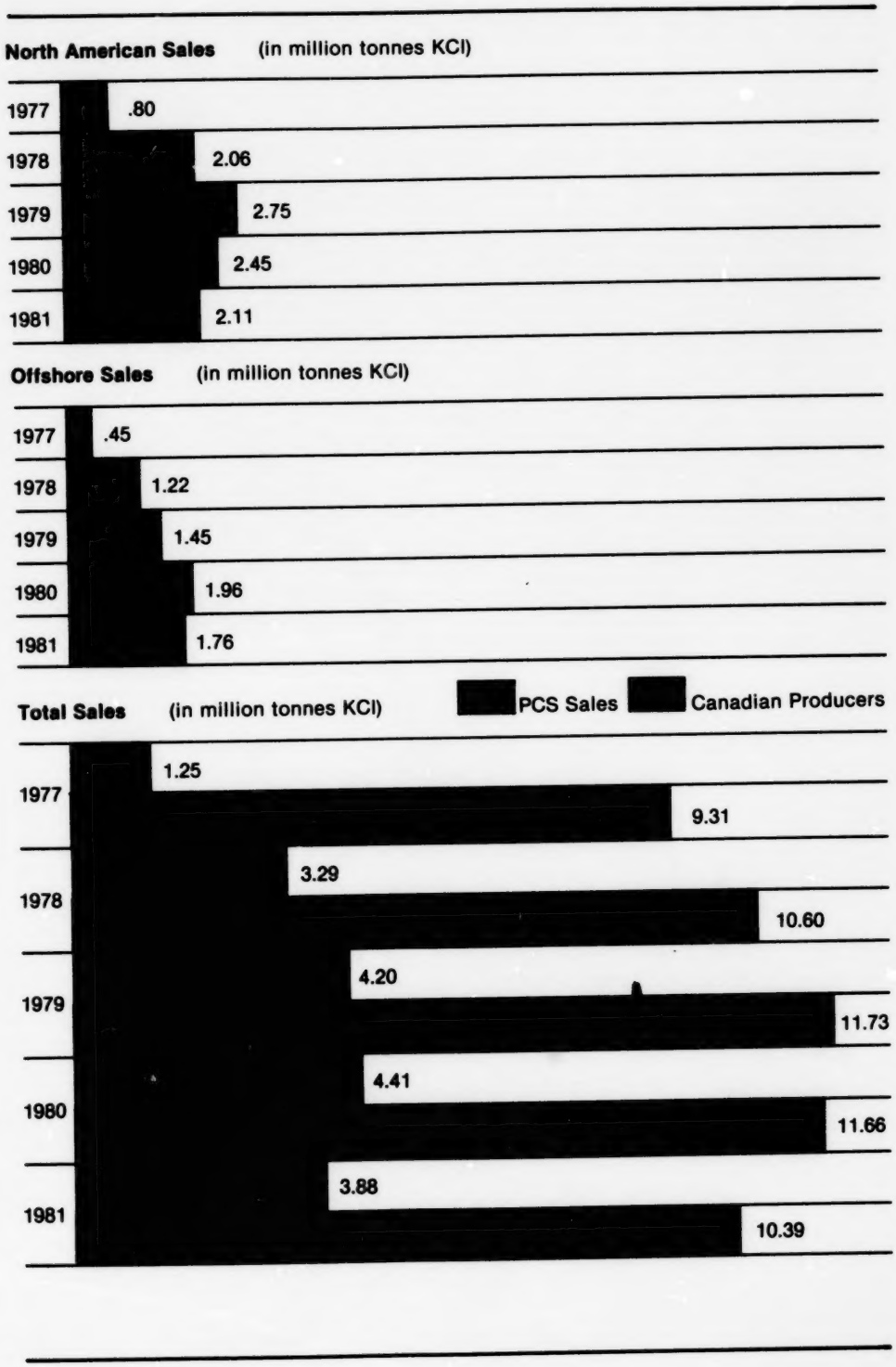
The Agronomy department was established in 1980 to promote the role of potash in building soil fertility with the ultimate goal of increasing world food supplies.

Agronomy has participated in research studies and funding throughout the PCS market area. Projects include identifying potassium deficient soils and response of crops to potash fertilizer in Saskatchewan. In Alberta, tests are being conducted to determine the residual value of potash application on barley when it is part of a crop rotation plan. At the University of Guelph, the research program is evaluating test criteria for potassium on forage crops. Identifying the role of potassium in increasing both yield and quality of silage corn is the focus of research at McGill. In the Corn Belt of the U.S. midwest, Agronomy is cooperating on research projects on corn and soybeans.

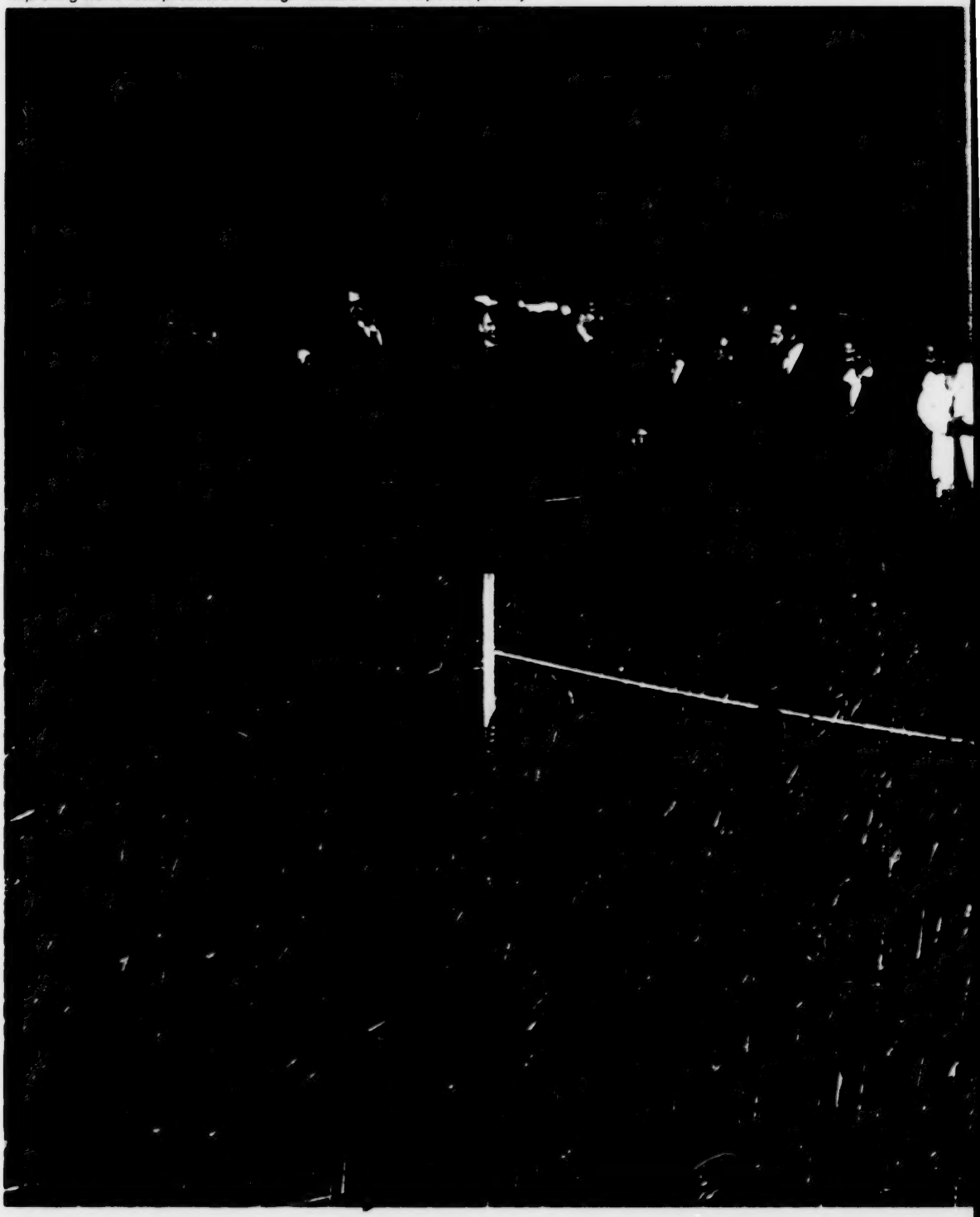
Dealers and their clients learn of the latest research findings at potash seminars sponsored by PCS Sales. Field demonstrations in the summer provide first-hand information to the agricultural community.

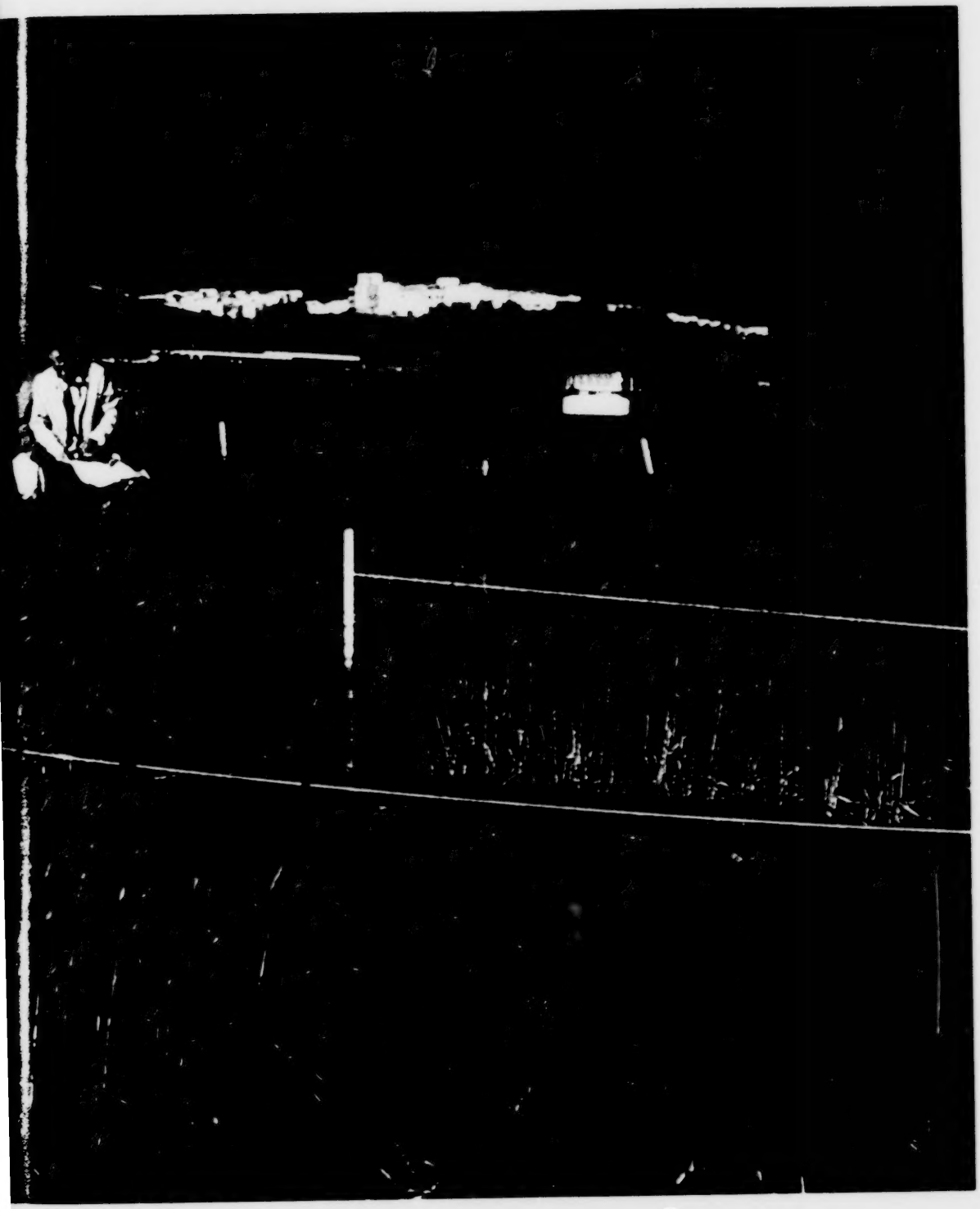
At the international level, projects include exchange programs with scientists from the People's Republic of China as well as the establishment of a demonstration farm in that country. In Malaysia, research studies are planned to test application of potassium chloride and magnesium on oil palms. Other research and exchange programs will be developed to complement the marketing effort of PCS International in the offshore agricultural community.

PCS Sales District Sales Manager, Ed Pearson with customer, Bill Sparrow in Shelbyville, Kentucky


North American Sales (in million tonnes KCl)
1977
.80
1978
2.06
1979
2.75
1980
2.45
1981
2.11
Offshore Sales (in million tonnes KCl)
1977
.45
1978
1.22
1979
1.45
1980
1.96
1981
1.76
Total Sales (in million tonnes KCl)
PCS Sales
Canadian Producers
1977
1.25
9.31
1978
3.29
10.60
1979
4.20
11.73
1980
4.41
11.66
1981
3.88
10.39

Improving world food production through research is a Corporate priority.





PCS International

In September of 1981, PCS International was established as a fourth subsidiary designed to meet the needs of offshore customers. Edmond Price was appointed Vice-President, Marketing of the new subsidiary. Mr. Price is well known in international fertilizer markets and has extensive experience in marketing potash.

Discussions have now been held with all major customers in offshore potash markets. Over the next six months, PCS International will be active in the selection and appointment of representatives and the finalization of contracts with buyers in all established overseas markets. A marketing team is being assembled in Saskatoon to cover the principal market regions of Asia, Latin America, Oceania and Africa.

Backed by supply of all grades of potash from the five producing divisions of PCS Mining, as well as the PCS Transport delivery system, PCS International will offer to customers a reliable, competitive and comprehensive service.

A marketplace in Thailand, where potash is used to increase food production.

Potash Corporation of Saskatchewan
Consolidated Statement of Financial Position
As at December 31

	(Thousands)	
	1981	**1980**
Assets		
Current Assets		
Short-term investments, at cost	$ —	$128,790
Accounts receivable	76,464	72,666
Product inventory	26,455	6,549
Materials and supplies inventory	18,372	15,315
Deposits and prepayments	31,117	2,888
	152,408	226,208
Property, plant and equipment (Note 3)	790,708	624,962
Investments and other assets		
Investments, at equity (Note 1)	579	579
Deferred charges, net of amortization	18,914	6,690
	$962,609	$858,439
Liabilities and Equity		
Current Liabilities		
Bank indebtedness	$ 10,564	$ 3,395
Accounts payable and accrued charges	56,947	36,292
Current portion of long-term debt	25,000	20,000
Dividend payable	50,000	50,000
	142,511	109,687
Long-term debt (Note 4)	88,025	108,400
	230,536	218,087
Equity		
Saskatchewan Heritage Fund	418,554	418,554
Retained earnings	313,519	221,798
	732,073	640,352
	$962,609	$858,439

Potash Corporation of Saskatchewan
Consolidated Statement of Income
For the Years Ended December 31

	(Thousands)	
	1981	**1980**
Income		
Sales	$370,773	$392,490
Interest and other	13,105	16,338
	383,878	408,828
Costs and expenses		
Operating costs other than those shown below	173,584	183,406
Depreciation and amortization	30,493	27,609
Selling, distribution and administrative	34,411	22,940
Interest on long-term debt	3,669	7,424
	242,157	241,379
Net Income	$141,721	$167,449

Potash Corporation of Saskatchewan
Consolidated Statement of Retained Earnings
For the Years Ended December 31

	(Thousands)	
	1981	**1980**
Retained earnings, beginning of year	$221,798	$104,349
Net income	141,721	167,449
	363,519	271,798
Dividend (Note 5)	50,000	50,000
Retained earnings, end of year	$313,519	$221,798

Potash Corporation of Saskatchewan
Consolidated Statement of Changes in Financial Position
For the Years Ended December 31

	(Thousands)	
	1981	**1980**
Financial resources were provided by Operations		
Net income	$141,721	$167,449
Depreciation and amortization	29,887	25,153
	171,608	192,602
Proceeds of long-term debt	4,625	13,400
	176,233	206,002
Financial resources were used for		
Purchase of property, plant and equipment	194,756	97,026
Reduction of long-term debt	25,000	62,000
Long-term investment	—	579
Dividend	50,000	50,000
Additions to deferred charges	13,101	1,090
	282,857	210,695
Decrease in working capital	106,624	4,693
Working capital, beginning of year	116,521	121,214
Working capital, end of year	$ 9,897	$116,521

Potash Corporation of Saskatchewan
Notes to Consolidated Financial Statements
December 31, 1981

1. Accounting Policies

The Corporation's accounting policies are in accordance with generally accepted accounting principles and have been applied on a basis consistent with that of the preceding year. The following policies are considered to be significant:

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its significant subsidiaries. Investments carried at equity in net assets include a company owned more than 50% but which is not material in size. The following is a financial summary of Canpotex Bulk Terminals Limited carried at equity:

	(Thousands)
Total Assets	$990
Less: Total liabilities	90
Net Assets	$900
PCS Sales equity in net assets	$579
PCS Sales equity in net income	Nil

Inventories

Inventory of product is valued at the lower of average cost or net realizable value. Inventory of materials and supplies is valued at the lower of average cost or replacement cost.

Property, plant and equipment

Assets are carried at cost. Costs of additions, betterments and renewals are capitalized. Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred. Interest associated with major capital projects is capitalized during the construction period and is included in the total cost of the project.

Depreciation and amortization

Depreciation and amortization are provided on the basis and at the rates set out below:

Asset	Depreciation or Amortization Basis	Approximate Rate
Roads and parking lots	Straight-line	4%
Leasehold rights		
1) Shaft	Units of production	3%
2) Other-development costs and mineral rights	Units of production	2%
Buildings	Straight-line	4%
Equipment	Straight-line	8%
Automotive equipment	Straight-line	20%
Furniture and equipment	Straight-line	10%
Leasehold improvements	Straight-line	Term of lease plus renewals

Research and development costs

Research costs are charged to expense as incurred.

Development costs are capitalized until the development project is determined not to be technically feasible and no future benefit to the Corporation exists, at which time the costs are expensed.

Development costs which are capitalized are included in Deferred Charges and will be amortized over the estimated useful life of the project to which they relate.

Foreign exchange translation

Foreign operating transactions are translated to Canadian dollars at the average exchange rate for each month.

Foreign current assets and liabilities are translated on the basis of year end exchange rates.

Non-current assets and liabilities are translated at the exchange rate prevailing at the time of the transaction.

The Corporation has adopted a foreign exchange hedging policy whereby it may enter into forward contracts based on a percentage of its forecasted United States dollar receipts to a maximum period of five years.

2. Status of Potash Corporation of Saskatchewan

The Corporation was established by Order-In-Council on February 4, 1975 and continued under The Potash Corporation of Saskatchewan Act, proclaimed on April 1, 1976.

The Corporation's accounts are consolidated in the annual consolidated financial statements of Crown Investments Corporation of Saskatchewan.

3. Property, Plant and Equipment

The property, plant and equipment amounts have been reduced to reflect accumulated depreciation, which at December 31, 1981 and 1980 is $105,057,000 and $76,111,000 respectively.

4. Long-Term Debt

Province of Saskatchewan	
— Bearer bonds issued and sold by the Province and the proceeds transferred to the Corporation as authorized by Order-In-Council Number 114/77. Matures in three equal annual installments on January 28, 1982 to 1984, inclusive with interest at 8 3/8% per annum, payable semi-annually	$ 75,000,000
Saskatchewan Heritage Fund	
— Loan capital matures in four equal annual installments on June 30, 1984 to 1987 inclusive with interest at 9.3% per annum, payable semi-annually	20,000,000
— Loan capital matures $5,000,000 on December 31, 1988 and $8,400,000 on December 31, 1989 with interest at 13% per annum, payable semi-annually	13,400,000
Webster County, Iowa	
— Non-negotiable promissory note issued as $3,900,000 U.S. matures December 1, 1996 with interest at 13% per annum, payable semi-annually secured by land and a building under construction with a book value of $3,200,000 at December 31, 1981	4,625,000
	113,025,000
Less amounts due within one year	25,000,000
	$ 88,025,000

Principal payments due on long-term debt for the years 1982 through 1986 are as follows:

1982 — $25,000,000	1984 — $30,000,000	1986 — $ 5,000,000
1983 — $25,000,000	1985 — $ 5,000,000	

5. Dividend

A decision was made that the Corporation transfer a portion of the funds derived from its operations to the Crown Investments Corporation of Saskatchewan. This transfer of income is referred to as a dividend.

6. Research and Development Costs

Research and development costs charged to expense in 1981 amounted to $3,800,000 (1980 — $552,000).

7. Lease Commitments

The Corporation has long term lease agreements, the longest of which expires in 1992. Future minimum lease payments under these operating leases will be approximately as follows:

Years ending December 31	(Thousands)
1982	$10,326
1983	9,642
1984	7,955
1985	6,605
1986	4,582
Subsequent years	14,219

8. Contractual Obligations and Commitments

The Corporation has previously announced an expansion at the Lanigan division at a total cost of $475,000,000 of which approximately $132,087,000 has been expended to date. The Corporation has also previously announced its intention to develop a completely new mine near Bredenbury, subject to environmental approvals and on-going economic evaluations.

Potash Corporation of Saskatchewan Sales Limited is a shareholder of Canpotex Limited. Operating losses incurred by Canpotex Limited are proportionately guaranteed by its shareholders. As of the balance sheet date, no operating losses have been incurred by Canpotex Limited. PCS Sales is a guarantor of the performance of Canpotex Limited of certain railcar leases. PCS Sales has announced its intention to withdraw from Canpotex Limited effective June 30, 1982.

Potash Corporation of Saskatchewan Sales Limited and Potash Corporation of Saskatchewan Mining Limited have guaranteed a mortgage loan not to exceed $4,300,000 for warehousing facilities in Danville, Illinois.

9. Directors and Officers

During the year ended December 31, 1981, twelve (1980 — twelve) persons served on the Corporation's Board of Directors and twenty-eight (1980 — twenty-three) as senior officers. The aggregate 1981 remuneration to directors amounted to $49,000 (1980 — $40,650) and the aggregate 1981 remuneration to senior officers was $1,666,995 (1980 — $1,275,259).

10. Related Party Transactions

Included in these consolidated financial statements are expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Consolidated Statement of Financial Position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

Auditors' Report

To the Members of the
Legislative Assembly of the Province of Saskatchewan

We have examined the consolidated statement of financial position of Potash Corporation of Saskatchewan as at December 31, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saskatoon, Canada

January 29, 1982

Chartered Accountants

Management

David S. Dombowsky
President & Chief Executive Officer
PCS

Douglas A. Karvonen
Senior Vice-President, Corporate Development
PCS

Keith E. Barton
Vice-President and General Counsel
PCS

Glen E. Shields
Vice-President, Finance
PCS

Steven Dechka
Director of Corporate Affairs
PCS

Alec Kocur
Director of Internal Audit
PCS

Henry P. Goertzen
Director of Public Affairs
PCS

Neil MacPhedran
Director of Purchases
PCS

Robert Lee
Director of Corporate Planning
PCS

Graham Parsons
Director, International and
Intergovernmental Affairs
PCS

Steve W. Harapiak
President
PCS Mining

James F. Sadler
Senior Vice-President, Engineering
PCS Mining

Donald G. Matheson
Vice-President, Technical
PCS Mining

Brian C. Kaukinen
Operating Director
PCS Mining

Donald J. Irvine
Director of Divisional Services
PCS Mining

James J. Bubnick
Director of Personnel and Administration
PCS Mining

Bruce Karras
General Manager, Rocanville Division
PCS Mining

Martin Quick
General Manager, Lanigan Division
PCS Mining

Floyd Pellan
General Manager, Allan Division
PCS Mining

Rick Lacroix
General Manager, Cory Division
PCS Mining

Rolf Holzkaemper
President
PCS Transport

William Irvine
Director of Transportation - North America
PCS Transport

Erik Tofsrud
Director of Planning and Overseas Distribution
PCS Transport

Douglas E. Logsdail
President
PCS Sales

Jack Ellis
Director of Administration
PCS Sales

Sid Blair
Director of Market Development
PCS Sales

Gene Stockert
Director of Sales
PCS Sales

Edmond E. Price
Vice-President, Market Development
PCS International

Board of Directors

Honourable R. J. Romanow, Q.C., Saskatoon
Chairman of the Board
Attorney General
Province of Saskatchewan

Honourable E. L. Cowley, Regina
Provincial Secretary
Province of Saskatchewan

G. H. Beatty, Regina
President
Crown Investments
Corporation of Saskatchewan

Robert B. Beavis, Saskatoon
Businessman

John S. Burton, Regina
Executive Director,
Transportation Agency of Saskatchewan

Douglas H. Fullerton, Ottawa
Business Consultant

Jack Kinzel, Regina
Communications Consultant

Kenneth M. Lysyk, Q.C., Vancouver
Dean of Law
University of British Columbia

George Semeniuk, Saskatoon
Council Representative
United Food and Commercial Workers (UFCW)

George C. Solomon, Regina
President, Western Limited

A. Gordon South, Melfort
Farmer

Donald F. Axtell, Corporate Secretary
Crown Investments
Corporation of Saskatchewan